# DRA

*Division of Ratepayer Advocates*
*California Public Utilities Commission*

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July 13, 2006

Mr. Sean Gallagher, Director – Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94102

**Protest to Pacific Gas and Electric Company Advice Letter No. 2739-G**

Dear Mr. Gallagher:

On June 30, 2006, Pacific Gas and Electric Company (PG&E) submitted Advice Letter (AL) No. 2739-G for filing revisions to its core end-use customer gas rates for the month of July 2006. The filing is in compliance with Decision (D.) 97-10-065, which approved monthly changes for gas procurement rates for core customers. PG&E's proposed Schedule G-CP (gas procurement service to core end-use customers) rates effective July 7, 2006 include the following three adjustments:

a) A monthly weighted average cost of gas (WACOG) of $0.53355 per therm, compared to last month's WACOG of $0.51808 per therm;

b) A credit adjustment in the procurement rates of $0.05905 per therm to amortize over five months an expected $49.9 million overcollection in the Core subaccount of the Purchased Gas Account (PGA); and

c) An adjustment in the procurement rates of $0.01580 per therm to recover over two months an expected $4.3 million undercollection in the Core Pipeline Demand Charge Account (CPDCA).

DRA's protest to PG&E's AL 2739-G is limited to item b) above. PG&E proposes to amortize over five months an expected $49.9 million overcollection, resulting in a $0.05905 per therm credit during the months of July through November 2006.[1] DRA's protest and proposal is appropriate and timely given PG&E's own expressed concern regarding high winter gas prices.

DRA recommends that rather than amortizing the overcollection during mostly non-winter months, when core gas demand is lower and gas prices and bills are generally lower, PG&E

[1] It appears that PG&E initiated the amortization in a prior month's advice letter, specifically in PG&E's AL 2730-G addressing core rate changes for June 2006.

should instead be directed to amortize the overcollection during the three peak winter months of December 2006 through February 2007. This amortization schedule would be consistent with PG&E's request to protect ratepayers in the event of winter gas price spikes, as requested in its May 5, 2006 Petition of PG&E for Further Modification of Decision No. 04-01-047, and for Modification of Decision No. 05-10-015, and Request for Expedited Treatment (Petition). In its Petition, PG&E states the following:

> "The requested modifications will allow PG&E to undertake hedging of its natural gas portfolio on behalf of core procurement customers for the winter of 2006-2007, outside of the CPIM. Prompt Commission action is needed order to protect PG&E's core procurement customers from potentially severe natural gas price spikes in the coming winter." (Petition, p.2)

In its Petition, PG&E is proposing to expend significant amounts of ratepayer money to procure financial instruments as a hedge against potential winter price spikes. According to AL 2739-G, PG&E already has a built-in hedge in the form of a $50 million dollar overcollection. If timed in an alternate manner, the amortization can serve as a hedge to help protect core customers from high winter gas prices and high winter bills. Rather than amortize the overcollection during predominantly non-winter months, it would be more appropriate to amortize it during the peak winter months when high bill mitigation is more valuable. In light of the concern over potential high winter prices, DRA recommends that PG&E be directed to utilize this overcollection in a more effective manner by crediting it to core procurement rates during the winter months of December 2006 through February 2007, when it will most benefit core ratepayers.

DRA recognizes that through its monthly core procurement rate revision addressed in AL 2730-G and AL 2739-G, PG&E has already amortized the overcollection for the months of June and July 2006. DRA recommends that for the reasons discussed above, the Commission order PG&E to suspend further amortization of the overcollection and defer the amortization of the remaining balance to the months of December 2006 through February 2007. The Commission should act expeditiously so that core ratepayers can benefit from this built-in hedge, which they have already paid for, during the months when they most need it.

If you have questions or need information regarding this protest, please contact Jacqueline Greig at (415) 703-1079.

Sincerely,

R. Mark Pocta
Program Manager
Division of Ratepayer Advocates

cc: Richard Myers, Energy Division
Jerry Royer, Energy Division
Brian K. Cherry, PG&E